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ADVANCE LETTER ON GENERAL BUSINESS CONDITIONS

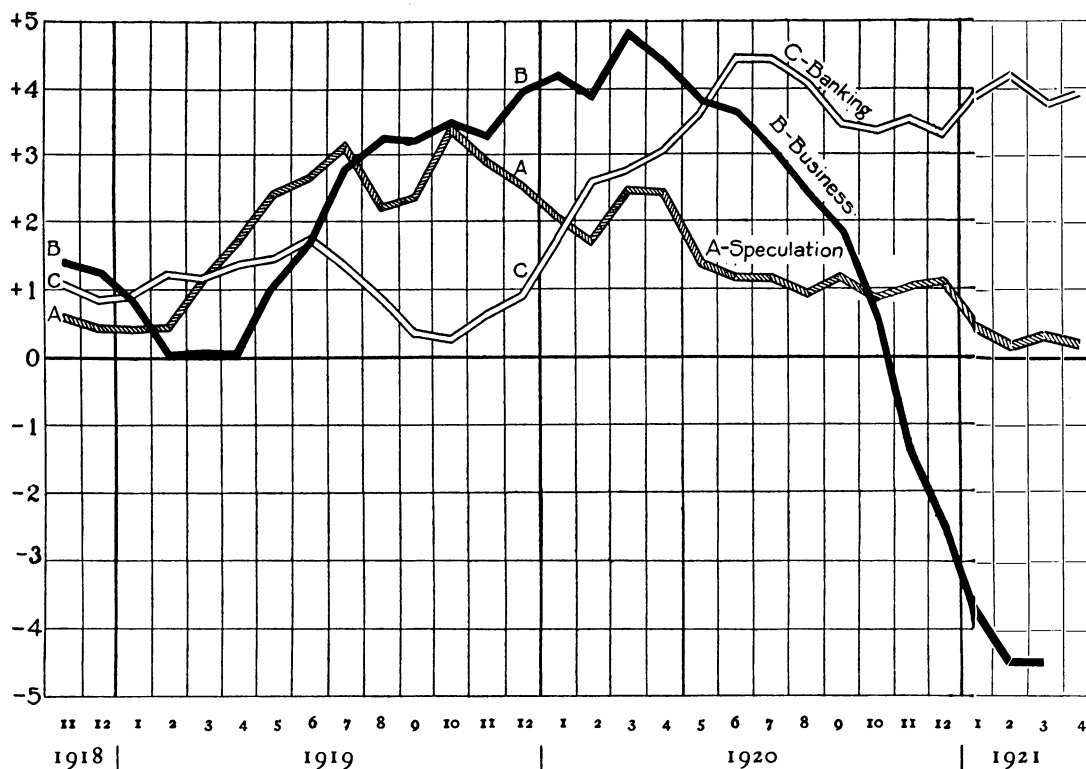
May 2, 1921

THE INDEX

ACTUAL average rates on commercial paper in April were at the lowest point since last May, and there was a definite easing of rates at the end of the month. Prices of industrial stocks for the past four months have ruled consistently above the average of

not only of the reduced volume of trading on the Stock Exchange in April, but also of the swelling of March clearings now caused by the income-tax payments in that month.

The average price of railroad shares has recovered more than three points from the low level of the month,



INDEX CHART. The items locating curves A, B, and C all refer to complete calendar months and the points are plotted in the middle of the spaces allotted to the months.

EXPLANATION: Each of the three curves on the Index Chart is obtained by averaging a group of statistical series, each group being composed of series homogeneous in character; i. e., when corrected for the seasonal influence and normal growth, the series of each group move in the same direction (upward or downward) at the same time. The series were all expressed in comparable units before averages were taken.

Our interpretation of the fluctuations of the three curves of the current index chart is based upon the relationship which was discovered among similar curves for the period 1903-14. All three curves had wave movements, but the upward swings and the crests of the waves were not reached simultaneously. The major movements of speculation preceded those of business by 4 to 10 months, and the movements of business preceded those of banking by 2 to 8 months.

The persistent decline of curve A and the equally persistent rise of curve

C, both movements beginning in November 1919, indicated that a decline of business activity and commodity prices, curve B, would be inaugurated in the spring of 1920. In fact business unsettlement was noticeable in April of that year. The existence of the federal reserve system enabled us to avoid a financial panic but not a severe industrial depression which has continued into the spring of 1921.

Until March of the present year the Index Chart gave no sign of improvement in business conditions, but in that month curve C (representing money) moved downward and the declines of both curve A and curve B were arrested. In April both curve C and curve A moved practically sideways, indicating perhaps that the improvement noticed in March was being maintained. These recent movements of the curves probably indicate that the period of liquidation which began in April 1920 is approaching its end.

last December, and the improvement of business, noticeable in March, has continued in April. These facts indicate a continued improvement of business conditions and an early termination of general recessions in commodity prices.

SPECULATION

The volume of sales on the New York Stock Exchange last month was approximately 15,530,000 shares, a decrease of 5 per cent from March. In pre-war years the April sales were usually about 2 per cent below the March figures. New York bank clearings decreased from 16,680 million dollars in March to 15,530 millions in April, or 7 per cent. In pre-war years April clearings were usually about the same as March clearings. The decline in the present instance is probably a reflection

reached on April 14, but is still below the average for January and February of this year. Industrial stocks, however, have fared much better, and are now at the highest level (about \$79) since the early part of last November. Bond prices in general have developed some weakness during the last few days, probably as a result of the large issues recently offered. Industrial bonds have been least affected, and high grade rails somewhat more than other issues.

In the next number of the REVIEW we shall publish some statistics of new securities issued in this country since 1909. Below we present some figures showing "reported" security issues of the past three months, and those of the corresponding quarter of last year. The figures given are compiled and "reported" by financial journals. They do not cover the smaller

issues; and probably some other issues escape the notice of the compilers. The figures are useful, therefore, in indicating the trends rather than the absolute amounts of issues from quarter to quarter or year to year.

REPORTED ISSUES OF NEW SECURITIES IN THE
UNITED STATES *
(Unit: \$1,000,000)

FIRST QUARTER, 1921				
	Bonds	Notes	Stock	Total
Railroads and tractions .	120	16	5	141
Public utilities }	287	194	73	131
Industrials }				423
State and municipal. . . .	198	...	...	198
Foreign public.	69	...	...	69
Total.	674	210	78	962

FIRST QUARTER, 1920				
	Bonds	Notes	Stock	Total
Railroads and tractions .	8	52	...	60
Public utilities }	143	212	402	112
Industrials }				645
State and municipal. . . .	172	...	...	172
Foreign public.	25	...	...	25
Total.	348	264	402	1,014

* Figures for railroads, industrials and foreign are from the *Journal of Commerce*; those for state and municipal are from the *Commercial and Financial Chronicle*. Federal issues are not included.

From this table it appears that the new securities issued during the first quarter of the present year were about 5 per cent less in amount than those issued during the first three months of 1920. During both of these periods the federal government reduced its gross debt: in 1920 by over one billion dollars compared with the nominal figure of about two millions in 1921. It is worthy of note that in the first quarter of 1920 the public debt of the United States was reduced by an amount greater than the reported security issues.

More significant, in some respects, than these changes in the total reported issues are the changes in the figures for certain classes of securities. While industrial issues declined more than 40 per cent, reflecting great business depression, railroad issues increased nearly threefold, public utilities 16 per cent, and state and municipal 15 per cent. The increase in the public utility issues is doubtless a reflection of the improved position of these industries, upon which we commented some time ago; while the greater volume of state and municipal issues is probably due in considerable measure to the tax exemptions which these securities enjoy. There was also a significant change in the character of the securities issued. Bonds, which constituted only 13 per cent of the railroad and traction issues in the first quarter of 1920, were more than 80 per cent of the issues during the corresponding period this year; and notes were only about 11 per cent this year as compared with more than 85 per cent a year ago. In the industrial group there was a similar change; bonds increasing greatly in relative importance, while stock issues declined greatly.

BUSINESS

The improvement in business, though still slow and irregular, has made further progress. It has not become a general revival by any means, but it has spread and promises to continue. The textile, automobile, and leather industries have made further gains, in the manufacturing and selling ends at least, and a better tone is reported in oils and rubber. Freight-car loadings show signs of improvement. The recent price revisions by the United States Steel Corporation have not yet appreciably changed conditions in the steel trade. Buyers are still reluctant to make large commitments, apparently believing that further revisions are in prospect. This feeling is strengthened by reports that some of the smaller independent producers are again shading prices.

Increases in building operations are reported from various sections, further declines in the prices of certain materials and a spread of the tax-exemption movement having helped to increase the usual seasonal movement in these trades. In this connection great interest attaches to an index of building costs compiled by the Aberthaw Construction Company. According to these figures, the cost of a standard concrete factory structure, taking December 1914 as 100, reached a high point of 266 in June 1920 and on May 1, 1921 had declined to 176. Complete details concerning the construction of this index will be published later in the REVIEW.

BANKING

The most significant development of the money market in April was a distinct easing of commercial paper rates in the last week of the month. Prime commercial paper is now moving at 7 to 7½ per cent, with some very choice names said to be selling as low as 6½ per cent. The prevailing rate at present is about 1 per cent below that prevailing last August.

The banking situation continues encouraging. The improvement of the federal reserve position is the result, as we have pointed out, of two factors of approximately equal weight: an increase of gold reserves and a decrease of demand liabilities. The condition on April 27 compared with that at the end of last year is indicated by the following table:

COMPUTATION OF THE RESERVE RATIO OF THE FEDERAL
RESERVE BANKS

	Dec. 30, 1920	Apr. 27, 1921
	(million dollars)	
(a) Reserves:		
Gold	2,059	2,318
Legal tender notes, silver, etc. . . .	190	187
Total reserves	2,249	2,505
(b) Demand liabilities:		
Federal reserve notes in actual circulation	3,345	2,830
Government deposits	28	36
Due to members—reserve account . .	1,749	1,657
Other deposits, including foreign government credits.	22	33
Total demand liabilities . . .	5,144	4,556
	(per cent)	
Ratio of (a) to (b)	43.7	55.0